### **AUDITING PROCEDURES REPORT**

ssued under P.A. 2 of 196	68, as amended. Filing is mandatory.			amFS	
Local Government Ty		Local Government Name	SWAN CREEK TWO , STAGE OF ST. CHARLE	4ME County 5 SA	FINAW
City Towr	Opinion Date	l Date Acc	Southant Vehout applitured to arete.		
3-31-0			7-26-04		
prepared in accor	rdance with the Statement t for Financial Statements	s of the Government	vernment and rendered an otal Accounting Standards Bo Local Units of Government	oard (GASB)R in Michigan I	Ends Upp Unitorm
We affirm that:			110	CAL AUDIT O -	
1. We have com	plied with the Bulletin for the	ne Audits of Local Un	its of Government in Michiga	CAL AUDIT & FU	NANCE DIV.
	ed public accountants regi				
We further affirm the report of comments	the following. "Yes" respor ments and recommendatio	ises have been disclons	osed in the financial stateme	nts, including	the notes, or in
You must check th	ne applicable box for each				
yes no	<ol> <li>Certain component ur</li> </ol>	its/funds/agencies of	the local unit are excluded t	from the finan	cial statements.
yes no	2. There are accumulat earnings (P.A. 275 of		r more of this unit's unres	erved fund b	palances/retained
yes no	3. There are instances 1968, as amended).	of non-compliance w	ith the Uniform Accounting	and Budgetir	ng Act (P.A. 2 o
yes ino	es (1) 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.				
yes no	5. The local unit holds of 1943, as amended	leposits/investments [ [MCL 129.91], or P.A	which do not comply with st a. 55 of 1982, as amended [N	:atutory requir MCL 38.1132]	ements. (P.A. 20 ).
yes no	6. The local unit has been unit.	en delinquent in distri	buting tax revenues that we	re collected fo	or another taxin
yes D no	earned pension benef	fits (normal costs) in t	nal requirement (Article 9, S the current year. If the plan i e normal cost requirement,	is more than 1	100% funded and
yes no	8. The local unit uses cr 1995 (MCL 129.241).	edit cards and has n	ot adopted an applicable po	licy as require	ed by P.A. 266 c
yes no	9. The local unit has not	adopted an investme	ent policy as required by P.A	v. 196 of 1997	(MCL 129.95).
	and the fall accions		i I	To Be	Not
	sed the following:		Enclosed	Forwarded	Required
The letter of com	ments and recommendatio	ns. <i>PG</i> 10	,		
Reports on individ	dual federal financial assis	tance programs (prog	gram audits).		X
Single Audit Repo	orts (ASLGU).				X
Certified Public Ac	countant (Firm Name) -		d Campains	00 =	
33.07.0	BEI	RTHI AUME	& COMPANY C		ID . 702
Street Address	60 HARROW L	ANE	City SAGINAW	State Z	1P48603
Accountant Signate	ure /hanne	RO-BUTTO	11411		

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#### INDEPENDENT AUDITORS' REPORT

Members of the Board of Commissioners Swan Creek Township, James Township, and Village of St. Charles Water Authority Saginaw County, Michigan

We have audited the accompanying general purpose financial statements of the Swan Creek Township, James Township, and Village of St. Charles Water Authority, as of and for the three months ended March 31, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of March 31, 2004, and the results of its operations for the three months then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. Supplemental data listed in the table of contents is presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

June 10, 2004

Berthesiene & Co.

### GENERAL PURPOSE FINANCIAL STATEMENTS

#### GOVERNMENTAL FUND TYPE

#### **BALANCE SHEET**

March 31, 2004

	General Fund
ASSETS:	
Cash and cash equivalents Accounts receivable	\$ 155,159 21,984
Total assets	\$ 177,143
LIABILITIES AND FUND EQUITY:	
Liabilities:	
Accounts payable	\$ 22,216
Total liabilities	22,216
Fund Equity:	
Fund balance:	
Unreserved – Undesignated	154,927
Total fund equity	154,927
Total liabilities and fund equity	\$ 177,143

### GOVERNMENTAL FUND TYPE

### COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Three Months Ended March 31, 2004

REVENUES:	General Fund
Intergovernmental: Contributions from: James Township Swan Creek Township Village of St. Charles Charges for services – water use Interest Total revenues	\$ 3,000 3,000 3,000 279,423 3,304 291,727
EXPENDITURES:	
Public Works:	
Purchase of water	279,423
Repairs and maintenance	2,250
Contracted services Utilities	1,530
Phone	1,558
Insurance	1,565
Supplies	3,524 98
Total expenditures	289,948
Excess of revenues over (under) expenditures	1,779
Fund balance, beginning of year	153,148
Fund balance, end of year	\$ 154,927

GENERAL FUND

## COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended March 31, 2004

REVENUES	Budget	Actual	Variance (Unfavorable)	
·				
Intergovernmental:				
Contributions from other units	\$ 9,000	\$ 9,000	\$	-
Charges for services	282,000	279,423	(	(2,577)
Interest and rentals	3,300	3,304	Ì	4
Total revenues	294,300	291,727	(	2,573)
EXPENDITURES				
Public works	293,995	289,948		4,047
Total expenditures	293,995	289,948	•	4,047
Excess of revenues over (under)			,	
expenditures	305	1,779		1,474
Fund balances, beginning of year	153,148	153,148		_
Fund balances, end of year	\$ 153,453	\$ 154,927	\$ 1	1,474

#### NOTES TO FINANCIAL STATEMENTS

March 31, 2004

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Swan Creek Township, James Township, and Village of St. Charles Water Authority conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies:

#### **DESCRIPTION:**

The Swan Creek Township, James Township, and Village of St. Charles Water Authority was created in December, 2001 by the three constituent municipalities under the provisions of Act 233, Public Acts of Michigan, 1955 as amended. The Water Authority was created to administer and operate the water main supply system which provides the water supply for the three municipalities. The Water Authority is intended to supersede the James Township, Swan Creek Township, and St. Charles Village Water Supply District which was established by the Saginaw County Board of Commissioners by a resolution adopted June 10, 1969. The Water Authority took over operations from the Water District as of January 1, 2002. Water line/infrastructure assets, owned by the three units through the water district, were transferred to the new Water Authority. The book value of the assets transferred was \$1,537,354.

The governing body of the Water Authority is a Board of Commissioners which is made up of two voting representatives from each municipality for a total of six board members.

#### **REPORTING ENTITY:**

As required by generally accepted accounting principles, the financial statements of the reporting entity include all activities of the Water Authority. The Water Authority has no joint ventures or component units. The Authority is not a component unit of any other governmental unit.

#### **BASIS OF PRESENTATION:**

The financial activities of the Authority are recorded in one fund, categorized and described as follows.

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The financial activities of the Water Authority are recorded in the following fund.

#### Governmental Fund:

General Fund - The General Fund is the general operating fund of the Water Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

#### NOTES TO FINANCIAL STATEMENTS

March 31, 2004

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **BASIS OF ACCOUNTING:**

The Authority uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred.

#### **CASH AND CASH EQUIVALENTS:**

Cash and cash equivalents consist of savings and certificates of deposit. The Water Authority currently has no investments.

#### RECEIVABLES:

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

#### **FUND EQUITY:**

The unreserved undesignated fund balances for funds, if any, represent the amount available for budgeting future operations.

#### NOTE 2: CASH AND EQUIVALENTS

The Authority's deposits at March 31, 2004 are included on the balance sheet under the following classifications:

	Cash and Equivalents		
Deposits - Community State Bank	\$ 155,159		
	\$ 155,159		

All deposits are in compliance with statutory authority.

#### NOTES TO FINANCIAL STATEMENTS

March 31, 2004

#### **DEPOSITS:**

At March 31, 2004, the book value of the Authority's deposits, consisting of demand deposits and certificates of deposits, was \$155,159 with a corresponding bank balance of \$155,159. Authority deposits are insured by the Federal Deposit Insurance Corporation up to \$100,000. Of the bank's balance, approximately \$100,000 is insured (credit risk Category #1) and the remaining \$55,159 is uninsured and uncollateralized (credit risk Category #3).

The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### NOTE 3: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The Authority had no expenditures materially exceeding budgeted appropriations at the activity level, which is the Authority's legal level of budgetary control for the year ended March 31, 2004.

#### **NOTE 4: RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and distribution of assets; errors and omissions; and natural disasters. The Authority carries commercial insurance to cover any potential claims associated with these risks and has had no claims that exceeded the insurance coverage during the year.

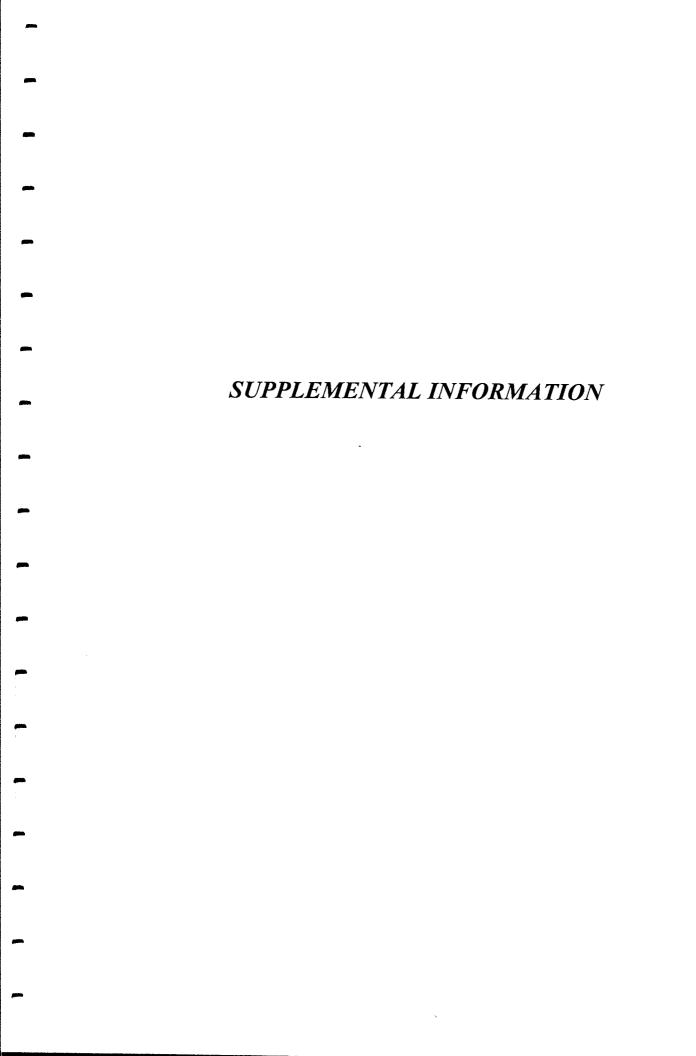
#### **NOTE 5: EMPLOYEE BENEFITS**

As of March 31, 2004 the Authority has no employees or employee benefit programs.

#### NOTE 6: CONTRACTS AND COMMITMENTS

The Authority has entered into various contracts as follows:

- Water Supply Services The Authority contracts with the City of Saginaw for its water supply needs.
- Service Contracts The Authority contracts with each of the constituent municipalities to provide services.





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#### MANAGEMENT LETTER

To the Board of Commissioners Swan Creek Township, James Township, and Village of St. Charles Water Authority Saginaw County, Michigan

We have completed our audit of the financial statements of the Swan Creek Township, James Township, and Village of St. Charles Water Authority for the three months ended March 31, 2004, and have issued our report thereon dated June 10, 2004. As part of our examination, we made a study and evaluation of the Authority's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the Authority's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The Authority's board is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by the administration are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide the administration with reasonable, but not absolute assurance that assets are safeguarded against unauthorized use or disposition and that transactions are executed in accordance with the administration's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Water Authority taken as a whole. Our study and evaluation disclosed no conditions that we believe to be material weaknesses.

This report is intended solely for the use of the Authority board and should not be used for any other purpose.

We wish to extend our appreciation to you and your staff for the assistance accorded us during our examination.

Berthiaume & Company Certified Public Accountants

Berhruime & G.

June 10, 2004